



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2006-2007 STATE BUDGET

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OVERVIEW

The Governor has proposed his budget for the 2006-07 Budget Year. The Budget has been introduced in the Legislature (AB 1800, Laird) and it is now up to the Legislature to analyze, debate, and craft the budget by the June 15th Constitutional deadline and in time for the start of the new fiscal year on July 1, 2006.

The Governor's proposed budget contains \$98.6 billion in available General Fund resources, this includes \$7 billion in the beginning balance and \$91.6 billion in resources accumulated in the budget year. The budget proposes \$97.9 billion in General Fund expenditures, and a \$153 million reserve (the budget also contains a \$460 million reserve in the Budget Stabilization Account).

Overall, General Fund revenues are up by \$9.3 billion than what was projected when the current year budget was passed in July. This includes estimate increases of \$2.3 billion for the 2004-05 budget year, \$3.2 billion for the 2005-06 budget year, and \$3.7 billion for the 2006-07 budget year.

The Governor proposes to increase General Fund expenditures by \$7.6 billion, the Department of Finance asserts \$4.1 billion of this is required under current law, while \$3.5 billion results from new policy decisions, such as increasing Proposition 98 funding by \$1.7 billion and repaying a portion of a Proposition 42 loan one year early.

This document provides and immediate look at key elements of the proposed budget. A more thorough analysis of the budget will be provided in the annual Preliminary Review, which will be available near the end of January.

**General Fund Summary
(in millions)**

	2005-06	2006-07
Prior Year Balance	\$9,634	\$7,031
Revenues and Transfers	\$77,904	\$91,545
Total Resources Available	\$97,325	\$98,576
Non-Proposition 98 Expenditures	\$53,983	\$57,446
Proposition 98 Expenditures	\$36,311	\$40,456
Total Expenditures	\$90,294	\$97,902
Fund Balance	\$7,031	\$674
Reserve for Liquidation of Encumbrances	\$521	\$521
Special Fund for Economic Uncertainties	\$6,510	\$153
Budget Stabilization Account		\$460
Total Available Reserve		\$613

REVENUES

General Fund Revenue Sources (in millions)

Source	2005-06 (July '05 projection)	2006-07 (Jan. '06 projection)	Difference
Personal Income Tax	\$43,231	\$48,716	\$5,485
Sales Tax	26,951	28,295	1,344
Corporation Tax	8,822	10,024	1,202
Insurance Tax	2,300	2,340	40
Tobacco Taxes	116	118	2
Liquor Tax	315	316	1
Tobacco Bond Refi	525	--	-525
Other	2,211	1,736	-475
<i>Total</i>	\$84,471	\$91,545	\$7,074

EXPENDITURES

General Fund Expenditures (in millions)

Category	2005-06 (July '05 projection)	2005-06 (Jan. '06 projection)	2006-07 (Jan. '06 projection)
Education (K-12)	\$36,583	\$36,058	\$39,881
Health and Human Services	27,115	27,260	28,473
Higher Education	10,217	10,158	11,223
Business, Transportation and Housing	1,702	1,714	2,719
Legislative, Judicial, Executive	3,057	3,147	3,382
General Government	1,845	2,166	1,910
Youth and Adult Corrections	7,422	7,658	8,081
Resources	1,356	1,388	1,530
Environmental Protection	79	78	71
State and Consumer Services	562	578	540
Labor and Workforce Development	88	89	92
<i>Total</i>	\$90,026	\$90,294	\$97,902

K-12 EDUCATION

- Provides a total Proposition 98 funding level of \$54.3 billion for K-12 education and community colleges. This is an increase of \$4.3 billion, compared to last year's funding level.
- Includes a funding level that is \$1.673 billion above the Proposition 98 minimum funding level required by the constitution for K-12 education and community colleges, under the Governor's calculation. This funding is ongoing and helps repay part of the debt ("maintenance factor") the state owes K-14 education, which was incurred during the 2004-05 fiscal year, when the state suspended the minimum funding requirement under the constitution.
- Provides \$428 million in new funding to expand after school programs to more elementary and middle schools, for a total funding level of \$550 million. Also provides CDE with 9 new positions to administer the program. This expansion is required by Proposition 49, which was passed by the voters in 2002. The expansion funds do not come out of what would normally go to K-14 education under Proposition 98, but rather come out of General Fund monies available for non-education programs.
- Fully funds growth (0.21%) and cost-of-living adjustments (5.18%) for K-12 education, at a total cost of approximately \$2.3 billion. Cost-of-living funding is discretionary for school districts and county offices of education.
- Increases discretionary funding for K-12 education by \$405 million in addition to growth and COLA, including a) \$205 million which will be equally distributed to districts as a permanent increase to their base funding levels, and b) \$200 million in "equalization" funding which will be distributed in different amounts to districts based on the distance between their existing funding levels and a target rate.
- Provides \$133 million in ongoing funds to pay for the ongoing costs of mandate reimbursements for K-12 education and community colleges. Also provides \$18.7 million in one-time funds towards the payment of prior-year mandate claims.
- Provides \$100 million for a new teacher and principal quality initiative, to help the lowest-performing 30% of schools to attract and retain credentialed teachers and principals in hard-to-staff areas.

- Provides \$65 million for a new proposal to add a third year to an existing two-year beginning teacher support and assistance program. The third year would be required for teachers in the lowest-performing 30% of schools.
- Provides \$100 million for a new block grant program to revitalize art and music in elementary and middle schools, at approximately \$20 per pupil.
- Provides \$60 million for a new block grant to improve physical education in elementary and middle schools.
- Provides \$25 million for incentive grants to elementary and middle schools to hire more credentialed physical education teachers.
- Increases funding for career technical programs by \$30 million. These programs are intended to improve linkages between community colleges and K-12 career technical programs. This augmentation would mean a total of \$50 million for this new program, which was initiated last year with a \$20 million appropriation.
- Provides \$25 million for one-time digital classroom block grants of approximately \$3000 per classroom, to improve education technology.
- Increase funding to help students pass the California High School Exit Exam by \$20 million. The class of 2006 is the first graduating class that will have to pass the exam to obtain a high school diploma. This augmentation would mean a total of \$40 million for this new program, which was initiated last year with a \$20 million appropriation.
- Provides \$18.2 million to continue last year's program to provide canned and fresh fruits and vegetables in children's breakfasts. Last year's budget provided this same amount with one-time funds.
- Provides \$82 million in federal one-time funds to improve student performance at federally-identified program improvement schools. Also provides a \$4.5 million Proposition 98 increase to the High Priority Schools Grant program, to improve low-performing schools.
- Provides \$106.6 million for school facility emergency repairs, pursuant to the Williams lawsuit settlement of two years ago.
- Increases the charter school categorical block grant by \$36 million, pursuant to last year's legislation to gradually increase funding for this block grant.

- Continues last year's \$1.5 million augmentation to higher education programs to train more science and math teachers.

UNIVERSITY OF CALIFORNIA (UC)

- Includes a 3 percent General Fund increase of \$80.5 million for basic budget support.
- Provides \$52 million (based on revised marginal cost rate) for a 2.5 percent enrollment growth to fund an additional 5,149 full time equivalent (FTE) students.
- Provides \$75 million to buy out the Compact proposed and Board of Regents approved student fee increases for undergraduates (8 percent), graduates (10 percent) and professional school students (5 percent for most programs). All fees will remain at current-year levels.
- Modifies the student fee revenue set-aside for financial aid from 25 percent to 30 percent for undergraduates and from 50 percent to 45 percent for graduate students. This is equivalent to an average of 33 percent return-to-aid.
- Continues the one-time \$14 million appropriation for UC Merced for start-up costs including support for faculty salaries and recruitment, instructional technology, library materials, student services and operational support.
- Includes \$1.7 million to continue funding for the expansion of entry-level master's nursing programs.
- Provides \$180,000 for a new cohort of 12 students for the PRIME-LC program, which prepares medical students to serve in underserved areas of the state.
- Includes an additional \$375,000 to complete the system-wide implementation of the Math and Science initiative.
- Eliminates \$17.3 million for academic preparation. The *2005-06 Budget Act* provided \$29.3 million for academic preparation programs. Of this amount, \$17.3 million were General Fund and \$12 million were UC funds.
- Eliminates \$3.8 million in funding for labor research at the UC Berkeley and UCLA campuses.

CALIFORNIA STATE UNIVERSITY (CSU)

- Includes a 3 percent General Fund increase of \$75.7 million for basic budget support.
- Provides \$57.7 million (based on revised marginal cost rate) for a 2.5 percent enrollment growth to fund an additional 8,490 FTE students.
- Provides \$54.4 million to buy out the Compact proposed and Board of Trustees approved student fee increases for undergraduates and teacher credential program students (8 percent) and graduate students (10 percent). All fees will remain at current-year levels.
- Increases the student fee revenue set-aside for financial aid from 25 percent to 33 percent.
- Includes \$1.7 million to continue funding for the expansion of entry-level master's nursing programs.
- Includes an additional \$1.1 million to complete the system-wide implementation of the Math and Science Initiative.
- Increases the Capital Fellows Program by \$84,000 to reflect the 3 percent Compact funding increase.
- Eliminates \$7 million for academic preparation and student services programs. The *2005-06 Budget Act* provided \$52 million in General Fund for academic preparation programs. Of this amount, \$7 million were General Fund and \$45 million were CSU funds.
- Reduces retirement costs by \$22.5 million.

CALIFORNIA COMMUNITY COLLEGES (CCC)

- Provides \$148.8 million Proposition 98 General Fund for enrollment growth. This represents a 3 percent growth to provide access for an additional 35,000 FTE students.
- Provides \$264.6 million Proposition 98 General Fund for a 5.18 percent cost-of-living-adjustment (COLA) for general purpose apportionments for all districts.
- Proposes \$130 million for equalization.

- Proposes \$50 million for Economic Development and Career Technical Education.
- Includes \$20.8 million for a 1.7 percent growth and a 5.18 percent COLA for categorical programs.
- Provides \$9.6 million for Disabled Student Programs and Services including sign language interpretive services and real-time captioning equipment for deaf and learning disabled students.
- Increases the California Partnership for Achieving Success (CalPASS) allocation by \$500,000 for a total of \$1.5 million for statewide implementation of the program.
- Proposes a \$100,000 allocation for Baccalaureate Pilot Programs pursuant to Chapter 515, Statutes of 2005 (AB 1280). This augmentation funds two grants of \$50,000 to facilitate collaborative partnerships between community colleges and four-year institutions for the provision of baccalaureate degrees on community college campuses.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

- Increases the Cal Grant program by \$39.5 million over the *2005-06 Budget Act*.
- Includes \$6.8 million for the increased costs of the Assumption Program of Loans for Education (APLE).
- Provides authorization for 8,000 APLE awards in 2006-07. Of this amount, a total of 600 awards are authorized for participants in the Governor's Science and Math Teacher Initiative.
- Provides authorization for 100 new National Guard APLE awards.

DEPARTMENT OF HEALTH SERVICES

- Provides \$47.3 million for increasing the capacity of state and local governments to prevent and respond to disease outbreaks and natural or international disasters.
- Provides \$34.2 million for outreach and retention in the Medi-Cal and Healthy Families Programs.
- Provides \$22.7 million General Fund for caseload growth as a result of simplifying the Medi-Cal redetermination form to decrease turnover within the program.
- Provides \$1.6 million General Fund for proposals to serve Medi-Cal beneficiaries in the most integrated and appropriate community setting.
- Provides \$936,000 General Fund to phase in expanded enrollment of seniors and persons with disabilities into managed care by implementing performance standards, conducting outreach, and initiating mandatory enrollment in two counties.
- Provides \$208,000 General Fund for a pilot project to coordinate the provision of healthcare to beneficiaries with chronic health conditions who may be seriously ill or near the end of life, and persons with serious mental illness or chronic health conditions.
- Provides for the creation of a special fund for Licensing and Certification Program activities so that fees and expenditures related to the program can be better tracked. In addition, the Governor's Budget provides \$17.6 million from the new special fund for 133.9 new positions to better protect California's citizens, improve access to necessary services, and to meet current statutory requirements.
- Provides for Adult Day Healthcare Reform by adding back 3.8 positions to inspect facilities and to eliminate the use of the flat reimbursement rate. These proposals are projected to save \$9.8 million General Fund and are to combat fraud and maximize the resources in the program.
- Provides for Medi-Cal County Administration Cost Control through freezing the state's contribution to county overhead and salaries at the 2005-06 level for a savings of \$21.2 million General Fund.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- Provides \$2.7 million from the General Fund for the expansion of programs for Autistic Spectrum Disorders (ASD). The resources will allow each regional center to provide a new program coordinator and clinical specialist for Autistic Spectrum Disorders. The DDS will also establish and coordinate new state and regional ASD Resource Centers at the 38 community Family Resource Centers or similar community agencies throughout the state.
- Provides \$68.7 million (\$46.1 General Fund) for a three percent cost-of-living increase to regional center programs that have been subject to provider rate freezes for the past few years. The increase will promote provider stability and maintain continuity of services to consumers and families in the community.

DEPARTMENT OF MENTAL HEALTH

- Provides \$43.5 million (\$37.8 million General Fund) and 432.0 additional positions to bring all five state hospitals into compliance with the Civil Rights Institutionalized Persons Act (CRIPA). This would be a shift in the state hospitals' treatment philosophy to one focusing on recovery rather than on the disease.
- Continues to provide \$100 million in special education funding in the Department of Education budget for mental health services to special education pupils as required by the Federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes \$50 million non-Proposition 98 General Fund as a set-aside in the Commission on State Mandates budget for funding mental health services to pupils beyond those that are federally required under a new categorical program. The Administration has begun consultations with stakeholders about shifting AB 3632 services from a state-mandated program to a categorical program effective fiscal year 2006-07.

MANAGED RISK MEDICAL INSURANCE BOARD

- Provides \$9.6 million (\$3.5 million General Fund) to simplify the enrollment process of children into the Healthy Families Program. This program change is to enhance enrollment and retain currently eligible children, as well as ease administrative duties.
- Provides \$2.5 million (\$1.0 million General Fund) to encourage the use of the electronic application, known as Health e App, for the Healthy Families Program. This program change is to enhance enrollment and retain currently eligible children, as well as ease administrative review of applications.

EMERGENCY MEDICAL SERVICES AUTHORITY

- Emergency Medical Services Program and Personnel Preparedness Reforms - Provides \$1.6 million (\$1.5 million General Fund loan authority) and 7.4 positions in 2006-07 to enable the Emergency Medical Services Agency to perform the licensing and investigations of Emergency Medical Services Technicians and to provide additional state resources for paramedic misconduct investigations.
- Provides \$2.3 million (\$1.6 million General Fund) in 2005-06 to purchase protective equipment for ambulance personnel.

SOCIAL SERVICES

- Achieves \$48.1 million in savings by not passing on a federal SSI/SSP Cost of Living Increase and instead capturing the additional federal funds to offset General Fund costs for SSI/SSP. The proposal would delay the January 2007 federal cost of living increases until July 2008.
- Continues suspension of 2006-2007 CalWORKs and State SSI/SSP Cost of Living Increases that were adopted in last year's budget.
- Reduces CalWORKs by \$198.8 million, including \$114 million in savings from lower than expected child care caseloads, \$30 million in savings

assumed from reduced caseload costs for the pay-for-performance changes enacted in the FY 05-06 budget, \$40 million in reduced county administrative costs, and \$40 million in savings from delayed CalWORKs incentive payments.

- Increases Community Care Licensing's random sample licensing visits from 10 percent to 20 percent annually to comply with the statutory requirement that all community care facilities be visited at least once every five years, and to eliminate the existing backlog in random sample licensing inspections for \$5.2 million (\$4.8 million General Fund).\
- Establishes a comprehensive Licensing Program Analyst Training Academy to ensure appropriate training and enhance the efficiency of field staff to better safeguard facility clients for \$596,000 (\$561,000 General Fund).
- Implement a series of administrative Community Care Licensing proposals for \$956,000 (\$654,000 General Fund).
- Increases sponsor deeming period for the Cash Assistance Program for Immigrants (CAPI) from 5 to 10 years, saving \$12.5 million. Legal low-income immigrants that are elderly and disabled but do not qualify for SSI/SSP because of citizenship status would only qualify for CAPI during the period if the combined income for them and their sponsor were low enough to qualify for the program.
- Continues the suspension of the Fee-Exempt Live Scan Program for two additional years. This program, which pays the one-time \$40 FBI fingerprinting fee for small licensed family child care homes, has been suspended for the past three fiscal years due to the state's ongoing structural deficit. This proposal will result in General Fund savings of \$1.2 million in both 2006-07 and 2007-08.
- Establishes an adoptions and permanency initiative for \$12.5 million (\$7.1 million General Fund) to improve permanency outcomes for children via adoption and increase foster care exits by increasing the number and timeliness of finalized adoptions. A key component of this proposal will target resources on older, hard-to-place foster youth to improve permanency options and assist the state in meeting federal performance targets for timely adoptions.
- Implements AB 1412 (Leno) to implement legislation that promotes safe and healthy families and strong communities for \$385,000 (\$156,000 General Fund) in 2005-06 and \$15.2 million (\$8.1 million General Fund) in 2006-07.
- Augments the Kinship Support Services Program which provides services to caregivers who provide for their relative children within their familiar family settings to ensure safe, stable, and permanent placements for at-risk children by \$2.5 million General Fund. This funding will be allocated

on a competitive basis to counties that are able to demonstrate the cost-effectiveness of this program and generate out-year savings.

- Augments the Transitional Housing for Foster Youth Program, which provides transitional housing placement services to youth who have emancipated from the foster care system and provides supervised independent living arrangements that prepare foster youth to live on their own by \$2.6 million (\$1.4 million General Fund). This proposal will enable additional counties to provide services to former foster youth who are at risk of homelessness, unemployment, or incarceration.

CHILD SUPPORT SERVICES

- Includes \$220 million General Fund to pay the federal fiscal year (FFY) 2006 Alternative Federal Penalty. The Governor's Budget assumes there will not be a penalty for FFY 2007, as the department plans to submit a request for federal certification of its single, statewide-automated child support system as an Alternate System Configuration by September 2006.
- Continues to provide federal funding to counties that overmatch state participation in order to expand their local child support services programs. Statewide this represents \$20 million in federal funds to match \$10 million in voluntary county funding for child support.
- Assumes child support collections for 2006-07 at \$2.4 billion (\$297.5 million General Fund). The collections for 2005-06 also are estimated to be \$2.4 billion (\$301.1 million General Fund).

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS (DADP)

- Provides \$120 million to continue activities related to the Substance Abuse Prevention and Crime Prevention Act of 2000 (Proposition 36). Although this level of funding is equivalent to the amount provide annually by Proposition 36, it is less than the \$150 million DADP expects to spend in the current year. The budget also references that the Administration will propose significant reforms to Proposition 36 to "improve outcomes and accountability".

COMMUNITY SERVICES AND DEVELOPMENT

- Continues \$1.5 million General Fund for the Naturalization Services Program.

CHILD CARE

- Does not appear to include a child care reform proposal for the first time in over 5 years.

DEPARTMENT OF WATER RESOURCES

- Provides \$41.3 million (\$31.4 million General Fund) for six new or continuing flood control capital projects: Folsom Dam Modifications, American River Common Features, Sacramento River Bank Protection, Folsom Dam Raise, American River Natomas Features, and Upper Sacramento River Levee Restoration.
- Provides \$35 million (General Fund) to implement a multi year Central Valley flood management plan.
- Provides \$84 million (General Fund), an increase of \$25 million, for the lining of the All American Canal.

CALIFORNIA BAY DELTA AUTHORITY

- Provides \$244 million for the state's share of the CALFED Program (\$26 million General Fund and \$218 million other funds).
- Provides various recommended reforms of the California Bay Delta Authority including: changes in governance; program and fiscal management improvements; refocused CALFED program priorities; creation of a 100 year Delta Vision; development of a near term funding plan; development of a conservation plan for the Sacramento River, San Joaquin River and the Delta.

DEPARTMENT OF FISH AND GAME

- Augments \$4 million (General Fund) to provide funding related to enacted legislation, continue salmon and steelhead habitat restoration grants, and prevent program reductions due to a shortfall in the Fish and Game Preservation Fund.
- Augments \$4 million (General Fund) to continue local grants for Coho salmon and steelhead trout habitat restoration.
- Augments \$6 million (General Fund) to prevent reductions to programs previously funded from the Fish and Game Preservation Fund. Recently enacted legislation, Chapter 689, Statutes of 2005 (AB 7), requires one third of all sport fishing license fees to be dedicated to achieving fish hatchery production goals and supporting trout restoration programs.
- Includes \$1.5 million (Special Fund) to improve sport fishing in the Bay Delta region.

DEPARTMENT OF PARKS AND RECREATION

- Provides a \$5 million (General Fund) augmentation for contamination remediation measures at the Empire Mine State Historic Park.
- Augments \$1.4 million (General Fund) for continuing efforts to ensure safe drinking water and waste water systems at state parks facilities.
- Includes \$11.8 million (\$11.2 General Fund) for continued efforts to bring state parks into compliance with the American with Disabilities act.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

- Provides a \$900,000 augmentation (\$135,000 General Fund, \$405,000 Air Pollution Control Fund, and \$360,000 Motor Vehicle Account) and 1.9 positions for the Secretary of Environmental Protection to lead a coordinated statewide effort to meet the emission reduction targets, including economic analysis and inventory improvement.

AIR RESOURCES BOARD

- Augments \$5.2 million (\$3.3 million Air Pollution Control Fund and \$1.9 million Motor Vehicle Account) and 4.8 positions for the Air Resources Board to develop measures that require the use of biodiesel fuel, reduce hydro fluorocarbon emissions, and reduce emissions from heavy duty vehicles.
- Provides \$4.0 million (\$2.7 million Motor Vehicle Account and \$1.3 million Air Pollution Control Fund) and 9 positions for the Air Resources Board to enforce heavy-duty diesel regulations, evaluate on-board diagnostic systems in vehicles, and replace older testing and diagnostic equipment.
- Proposes an augmentation of \$1.67 million (Motor Vehicle Account) and 7.7 positions to demonstrate new technologies and develop mitigation measures for pollution created by ships, locomotives, trucks, and heavy-duty equipment.
- Proposes \$6.5 million (Motor Vehicle Account) for the Air Resources Board to continue development of the Hydrogen Highway.

INTEGRATED WASTE MANAGEMENT BOARD

- Augments \$466,000 (Integrated Waste Management Account) and 2.9 positions for the Integrated Waste Management Board to expand existing efforts to capture methane from landfills and enhance recycling efforts.
- Augments \$223,000 (Electronic Waste Recovery and Recycling Account) and 2.9 positions for the Integrated Waste Management Board to investigate fraud in the electronic waste program.

DEPARTMENT OF TOXIC SUBSTANCES

- Provides \$1.5 million (Electronic Waste Recovery and Recycling Account) and 3.8 positions to enhance existing enforcement efforts related to the electronic waste recycling program.

DEPARTMENT OF PESTICIDE REGULATION

- Augments \$425,000 (Pesticide Regulation Fund) and 3.8 positions for the Department of Pesticide Regulation to conduct additional pesticide mill assessment audits.

DEPARTMENT OF TOXIC SUBSTANCES

- Provides \$1.5 million Electronic Waste Recovery and Recycling Account and 3.8 positions for the Department of Toxic Substances Control to enhance existing enforcement efforts related to the electronic waste recycling program.

STATE WATER RESOURCES CONTROL BOARD

- Provides \$8.5 million (\$4.5 million federal funds and \$4 million Waste Discharge Permit Fund) to enhance existing water monitoring efforts boards Surface Water Ambient Monitoring Program.

DEPARTMENT OF TRANSPORTATION

- Fully funds Proposition 42 at \$1.4 billion and repays a portion of a Proposition 42 loan to the General Fund at \$920 million, for a total of \$2.3 billion to provide funding for specified projects, the State Transportation Improvement Program (STIP), the Public Transportation Account and for local street and road maintenance.
- Continues shifting \$200 million of sales tax revenue on gasoline to the General Fund, this is the only gasoline tax related revenue that is not spent on transportation.
- Assumes the sale of \$1 billion in Tribal Gaming Bonds in the Spring of 2006, which will provide revenues for transportation.
- Projects a total of \$2 billion in additional federal funds for transportation over the current and budget years.
- Projects a total of \$3.5 billion from gas and diesel excise tax revenues for the State Highway Account and for cities and counties for transportation purposes.

- Projects the 2006 STIP to be \$5.6 billion, which includes \$3.8 billion carried over from the 2004 STIP, plus an additional \$1.8 billion in programming capacity.
- Proposes expenditures of \$11.5 billion (\$2.3 billion General Fund) for Caltrans.

CALIFORNIA TRANSPORTATION COMMISSION

- Proposes \$206,000 and 1.0 new position for the California Transportation Commission to serve on the Toll Bridge Program Oversight Committee to manage the remaining seismic retrofitting of the state-owned toll bridges, which includes the replacement of the eastern span of the San Francisco-Oakland Bay Bridge.

HOUSING

- Includes a \$3.4 million General Fund augmentation to continue the Office of Migrant Services (OMS) reconstruction plan to address health and safety standard deficiencies at the state-built OMS centers, which provide housing for farm workers throughout California. The funding will be used to reconstruct two child care buildings (\$2.4 million), and fully fund the ongoing operations, maintenance, and repair of the centers (\$1.0 million). In recent years, the reconstruction plan has been funded from bond funds.

PUBLIC UTILITIES COMMISSION

- Redirects 12 positions within the PUC to promote solar energy, expand energy efficiency programs, examine options for implementing new electric sector carbon policies, and carry out other activities in support of the Governor's Climate Change Initiative.
- Includes \$9.9 million (ratepayer funds) and 28 positions to support the Telecommunications Bill of Rights. This funding will be used to inform consumers of their rights through a public outreach campaign and enhance consumer complaint and enforcement activities.
- Proposes \$1.4 million (special funds) and 14.2 positions to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs.

ENERGY

- Proposes legislation to create a Department of Energy and a Cabinet-level Secretary of Energy. Specific functions of the Department of Energy would include:
 - Transmission line siting.
 - Representation before the Federal Energy Regulatory Commission.
 - Development of public interest energy research on renewable energy technology.
 - Petroleum fuels supply and demand analysis.
 - Natural gas supply and electricity demand forecasting.
 - Renewable energy portfolio standards program.
 - Energy efficiency standards.
- Energy Commission
 - Proposes \$7.2 million (\$135,000 General Fund and \$7.0 million other funds) and 23.4 positions to implement greenhouse gas emission reduction strategies. This funding includes \$612,000 and 3.8 positions for the Energy Commission to update the statewide greenhouse gas emissions inventory and accelerate the Renewable Portfolio Standard.
 - Includes \$500,000 (special fund) to implement AB 1007, which requires the development of recommendations to increase the use of alternative fuels.

BOARD OF EQUALIZATION

- Proposes \$1.6 million (\$1.1 million General Fund) and 13.8 positions for the board to identify and register businesses that fail to pay sales and use taxes on the goods and services these businesses provide. The budget estimates that these enforcement efforts will generate \$12.6 million in additional sales and use tax revenues in 2006-07 (\$7.9 million General Fund).
- Proposes \$1.4 million (\$811,000 General Fund) and 15.1 positions to identify property brought into the state without the payment of applicable sales and use taxes. The program will be run from California Department of Food and Agriculture border inspection stations. The budget estimates the program will generate \$7.4 million in additional sales and use taxes in 2006-07 (\$4.2 million General Fund).
- Includes \$1.9 million (\$216,000 General Fund) and 19.5 positions to identify entities that purchase tobacco products from out-of-state retailers without

paying applicable California sales and use taxes. The program will generate \$33.8 million in additional revenues in 2006-07 (\$3.9 million General Fund).

- Proposes \$1.1 million in federal funds and 11.5 positions to temporarily maintain the International Fuel Tax Agreement (IFTA) accounts for Mexican motor carriers who will begin operating in the state pursuant to the North American Free Trade Agreement.

FAIR EMPLOYMENT AND HOUSING

- Includes \$1 million and 12 positions for additional employment discrimination enforcement. This augmentation will reduce the average caseload of enforcement consultants to between 60 and 70 cases.
- Provides \$0.5 million and 1.9 positions for the Department to automate its appointment intake scheduling and "Right to Sue" applications.

LOCAL GOVERNMENT

- Increases General Fund spending by \$1.3 billion (for Proposition 98 K-14 Education) in order to replace property tax revenues that were diverted to schools and community colleges for two years in 2004-05 and 2005-06. The \$1.3 billion of property tax revenue will be restored to cities, counties, special districts, and redevelopment agencies as provided under existing law.
- Reinstates booking fee subventions (General Fund cost of \$40 million).
- Continues the suspension of Property Tax Administration Program (PTAP) grants to counties as provided under the 2005-06 budget agreement for a General Fund savings of \$60 million. The budget indicates that the administration is working to develop a new PTAP for implementation in 2007-08.
- State-Mandated Local Programs
 - Provides \$98.1 million for the first year of a 15-year payment plan to reimburse counties for mandated costs for which funding was deferred in years prior to 2004-05. Claims have been submitted for mandated activities performed by local government, which have been held awaiting funding.

- Provides \$50 million of non-Proposition 98 General Fund money as a set-aside in the Commission on State Mandates budget for funding county mental health services to pupils.
- Includes \$537,000 financed from mandate cost savings and 3.8 positions for a unit within the Department of Finance devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of this unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs.

BUDGET STABILIZATION ACCOUNT

- Transfers \$920 million to the Budget Stabilization Account (BSA) established by Proposition 58, which was approved by the voters in March 2004. This amount is 1 percent of projected General Fund revenues for 2006-07, as required by Proposition 58 for 2006-07 (the annual transfer increases to 2 percent in 2007-08 and 3 percent in 2008-09 and thereafter). Proposition 58 requires that half of this amount (\$460 million) must be used to accelerate repayment of the Economic Recovery Bonds that were sold to finance the state's 2003-04 accumulated budget deficit. The remaining \$460 million in the BSA would be available as a budget reserve, subject to transfer to the General fund by the Legislature.

TAXES

- Suspends the Teacher Retention Tax Credit for an additional year (tax year 2006), resulting in an estimated General Fund revenue gain of \$210 million. The credit was suspended in 2002 and also in 2004 and 2005. It provides personal income tax credits ranging up to \$1,500 to teachers, depending on their years of service.
- Extends the "yacht tax" provision by one year for a revenue gain of \$35 million. This provision increased the time that vehicles, vessels, or aircraft must be used out of state before they are brought into California in order to qualify for exemption from the Use Tax.
- Reduces revenues by a total of \$11 million (\$3 million in 2005-06 and \$8 million in 2006-07) by conforming state personal income tax treatment with federal tax treatment of Health Savings Accounts.

STATEWIDE PROPOSALS

- Includes language giving the Governor mid-year budget reduction authority. This would allow the Director of Finance to reduce General Fund appropriations if necessary to protect the financial interests of the state. Reductions would be limited to twenty-five percent of the affected appropriation and require notification to the Legislature within 30 days.
- Augments various departmental budgets by a total of about \$19 million (all funds) to pay increased personnel costs due to a \$1 increase in the minimum wage, effective September 1, 2006, as proposed by the Administration.
- Makes unallocated reductions in General Fund spending totaling \$150 million (\$50 million in 2005-06 and \$100 million in 2006-07). These one-time reductions are in addition to the \$100 million unallocated 2006-07 reduction provided for in Control Section 4.05 of the 2005 Budget Act. The budget indicates that the Department of Finance will work with agency secretaries and others to determine specific reductions.
- Reduces salaries and wages spending by \$58 million (General Fund) in 2006-07 primarily by forcing increased vacancies.

STATE CONTROLLER

- Includes \$37.5 million (\$20.1 million General Fund, \$13.6 million in special funds, and \$3.8 million in reimbursements) and 44.2 one-year limited term positions in 2006-07 to continue activities associated with the replacement of the existing employment history, payroll, leave accounting, and position control systems (21st Century Project).

DEPARTMENT OF JUSTICE

- Proposes \$745 million (\$387.2 million General Fund), which reflects an increase of \$40.8 million above the revised 2005-06 budget.
- Provides \$5 million and 32.3 positions for workload associated with DOJ Armed Prohibited Persons System (APPS) database. The APPS database cross-references persons who possess or own a firearm, and have been subsequently prohibited from owning or possessing a firearm.

- Provides \$6 million and 29.6 positions to create three new teams within the existing California Methamphetamine Strategy (CALMS) Program.
- Provides \$1.3 million and 12.6 positions to increase investigation activities within the DOJ Special Crimes Unit to increase investigate and prosecute perpetrators of complex financial and identity theft crimes.
- Provides an increase of \$9.8 million and 47.9 positions, phased in over two years (\$6.5 million and 31.9 positions in 2006-07, increasing to \$9.8 million and 47.9 positions in 2007-08), to allow the DOJ to add six new Gang Suppression Enforcement Teams (GSETs) to the one team already in place.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

- Proposes includes \$8.1 billion (\$7.9 billion General Fund), which reflects an increase of \$363.5 million above the revised 2005-06 budget. This represents an 8.9 percent increase in General Fund expenditures, as compared to the 2005 Budget Act.
- The Administration projects average daily inmate population to be 171,497 in 2006-07, an increase of 3,867 inmates, or 2.3 percent. The fiscal impact is \$73.4 million General Fund, \$914,000 Inmate Welfare Fund, and \$391,000 Reimbursements.
- Proposes an increase of \$5.4 million General Fund and 54.6 positions in 2005-06 and an increase of \$3.4 million General Fund and 34 positions in 2006-07 to cover increase juvenile institution population projections (2,920 youthful offenders by June 30, 2006, an increase of 305 from the level anticipated in the 2005 Budget Act).
- Proposes an increase of \$276,000 General Fund and 2.9 positions in 2005-06, and a decrease of \$135,000 and 1.5 positions in 2006-07, for the Juvenile Parole program. The juvenile parole population is projected to be 3,420 by June 30, 2006, an increase of 45 over the 2005 Budget Act. By June 30, 2007 it is expected to decrease by 245 cases, to a total of 3,175 parolees.
- Proposes \$25.4 million General Fund in 2005-06 and \$54.5 million General Fund in 2006-07 to increase the capacity of the Correctional Training Center from 1,920 cadets per year to 2,120 in 2005-06 and to 2,520 in 2006-07, and to establish a temporary offsite academy at the former Northern California Women's Facility (NCWF).

- Provides \$85.1 million and \$11.9 million in 2006-07 to reimburse local entities for the housing and non-routine medical costs of parolees who are detained for parole violations.
- Proposes 5.1 million to add 500 Global Positioning System (GPS) devices to track and monitor the parolee convicted of sexual or violent offenses.
- Provides an increase of \$5.1 million General Fund in 2005-06 and \$55 million General Fund in 2006-07 to implement both the Safety and Welfare Remedial Plan and the Medical Care Remedial Plan, which were submitted to the court after the enactment of the 2005 Budget.
- Proposes \$68.1 million to cover the ongoing budgetary shortfall in the CDCR's healthcare program to continue compliance with the Plata v. Schwarzenegger court order, which mandates provision of adequate medical care to all inmates.

JUDICIAL BRANCH

- Proposes \$3,427,506 and 1,889.2 positions Consistent with the State Appropriation Limit growth factor, an increase of \$105.2 million.
- Provides \$5.5 million to support facilities, staff, salaries, and benefits for up to 150 new judgeships phased in over a three year period beginning in April 2007.
- Provides \$18.7 million for court security to add 97 new entrance screening stations and will establish a five-year replacement schedule for entrance screening equipment.
- Provides \$12.3 million to fully fund ongoing operations and maintenance for information technology systems for the trial courts. The Budget also includes an increase of \$3.3 million General Fund and 9 positions to upgrade current systems and equipment and provide sufficient information technology support services for the Administrative Office of the Courts, the Supreme Court, and the Courts of Appeal.

OFFICE OF THE INSPECTOR GENERAL (OIG)

- Proposes \$15.2 million in total expenditures and 93.6 positions, a decrease of \$136,000 and 0.8 positions.

OFFICE OF EMERGENCY SERVICES

- Proposes \$1.1 billion in total expenditures and 497.1 positions, a decrease of \$247.1 million and 8.8 positions .
- Provides \$617,000 to increase staffing for emergency notifications to state and local officials.
- Provides \$6 million in local assistance grant funding to support the activities of SAFE teams statewide in order to reduce violent sexual assault offenses through proactive surveillance and arrest of habitual sexual offenders.

OFFICE OF HOMELAND SECURITY

- Proposes \$367.4 million (\$362.2 million Federal Trust Fund and \$5.2 million Antiterrorism Fund), an increase of \$6.1 million over the revised 2005-06 budget.
- Provides \$5 million from the Antiterrorism Fund to establish the Mass Transportation Security Grant Program to enhance the security of California's mass transportation infrastructure.

CALIFORNIA GAMBLING CONTROL COMMISSION

- Proposes \$137 million (a decrease of \$48,521) and 68.4 positions (an increase of 22.8 positions).
- Provides \$1.7 million (\$359,000 General Fund) and 13.8 positions to implement a comprehensive approach to Indian gaming and card room regulatory responsibilities
- Provides \$732,000 (\$366,000 General Fund) and 4.8 positions to establish a Technical Services Program to test and inspect gaming equipment.

SECRETARY OF STATE

- Provides full funding to the Secretary of State (\$9 million) and counties (\$45 million) to cover the cost of the special election.

- Includes \$3.1 million from the Business Fees Fund and 28.5 positions to address increasing workload in the Notary Public Section of the Business Programs Division.

CALIFORNIA ARTS COUNCIL

- Increases funding for local assistance from the Arts Council by \$1.8 million from the Graphic Design License Plate Account.

EMPLOYEE COMPENSATION

- Increases funding by \$1 million General Fund for reforming the state's 4,000+ classifications and determining appropriate testing instruments for the revised state classification structure. (State Personnel Board and Department of Personnel Administration)
- Proposes adding 6 positions and \$852,000 in reimbursement authority to meet the current workload demands of the Department of Personnel Administration's legal office due to increased litigation relating to collective bargaining issues and legal actions regarding state employees.
- Excludes funding for all employee bargaining units without completed MOU's. Some units are waiting for completion of a compensation survey at which times MOU's will be completed. These amounts will have to be added after negotiations are complete.
- Proposes \$200 million General Fund (\$382 million all funds) for the State Civil Service Employee Compensation Program, and increase of \$300 million over last year.
- Increases funding to the Department of Personnel Administration by \$82,000 reimbursement authority and 1.0 position to create an enrollee-funded vision care program for state retirees. The retiree vision plan will be a stand-alone pool.
- Reduces General Fund spending by \$58 million from salaries and wages. The Administration is not proposing to reduce individual employee's salaries, but rather reduce departmental salaries and wages expenditures primarily through vacancies.
- Includes \$150 million in unallocated General Fund reductions.
- Supports legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006. This proposal would have a

minimal fiscal impact to the state's payroll as only a small number of temporary, seasonal, and contract employees earn less than \$7.25 per hour.

CalPERS

- Predicts decrease in state's 2005-2006 contribution to CalPERS by \$152.7 million General Fund (\$251.5 million all funds), based on CalPERS new "asset smoothing and amortization" policies.

MILITARY DEPARTMENT

- Includes \$3.5 million (\$3.0 million General Fund and \$500,000 Federal Trust Fund) for maintenance and repairs at armories statewide.
- Establishes Internal Control Office perform internal audits that will improve the integrity, effectiveness, and efficiency of Department fiscal and program operations for \$182,000 General Fund and 1.9 positions.

VETERANS AFFAIRS

- Establishes a new Yountville Alzheimer's/Dementia Unit for \$3.8 million (\$3.4 million General Fund and \$474,000 federal funds) and 73.9 positions. This facility will serve 75 patients and was designed to address the unique needs of Alzheimer's and Dementia patients.
- Creates a program to treat veterans having combat-related mental and behavioral problems, such as posttraumatic stress disorder for \$1 million General Fund and 10.4 positions.

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Establishes an Automated Collection Enhancement System (ACES), which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes, including the personal income tax for a net cost of \$2.7 million.

DEPARTMENT OF INDUSTRIAL RELATIONS

- Establishes a collections unit within the Division of Labor Standards Enforcement for \$0.6 million and 4.8 positions. This unit will actively pursue the collection of fines and penalties against employers found to be in violation of California's labor laws. These collection efforts are estimated to result in additional revenues to the General Fund and the Unpaid Wage Fund.

DEPARTMENT OF CONSUMER AFFAIRS

- Provides \$3.9 million for the Medical Board of California to implement SB 231 (Chapter 674, Statutes of 2005), which increased license and renewal fees for physicians and implements a number of recommendations made by the Enforcement Monitor.
- Includes \$3.7 million to establish a new iLicensing System that will make online services available to the consumers of all programs overseen by the Department.
- Provides \$3.8 million for the Bureau of Automotive Repair to implement AB 383 (Chapter 565, Statutes of 2005), which increases the income eligibility criteria for participation in the Smog Check Repair Assistance Program.
- Includes \$1.4 million for the Bureau of Security and Investigative Services (Bureau) to implement SB 194 (Chapter 655, Statutes of 2005), which requires proprietary private security officers to register with BSIS and submit to a background check by the Department of Justice.

DEPARTMENT OF GENERAL SERVICES

- Includes an adjustment of \$14.1 million for Fiscal Year 2005-06 pursuant to AB 351 (Chapter 124 Statutes of 2005), which appropriated these funds from the General Fund for the Department of General Services to pay for the settlement of the Williams lawsuit.

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

- Includes \$7.2 million (General fund), \$5.5 million ongoing, and 37 positions for programs to address emerging threats to California's food supply, economy, natural resources, and the public health, including avian influenza and bioterrorism.

BUSINESS TRANSPORTATION AND HOUSING AGENCY

- Proposes to repay \$10.7 million loan (General Fund) to the Small Business Loan Reserve Fund.
- Augments \$2.7 million (General Fund) for California tourism promotion

CALIFORNIA HIGHWAY PATROL

- Proposes \$57.1 million and 9.5 positions as the first year of a five-year project to enhance and replace obsolete components of the CHP radio system.
- Proposes \$33.7 million and 233 positions for additional CHP uniformed and nonuniformed positions throughout the state. This request will result in 240 new officers and 70 new support/managerial staff by the end of the year.
- Proposes \$6.4 million and 88.8 positions to augment staffing in the CHP Communication Centers to expedite the answering of 9-1-1 calls. This request will result in 173 new positions by the end of the year.
- Proposes \$1.5 million to replace and remediate CHP's underground fuel storage tanks.
- Proposes \$652,000 and 6.6 positions to investigate and better manage workers' compensation and disability retirement claims.

DEPARTMENT OF MOTOR VEHICLES

- Proposes \$9.3 million and savings of 1.0 position to contract with an outside vendor to perform the new functions for the Electronic Insurance Verification System Project. The vendor will provide an enforcement service to include an interface to send and receive electronic insurance data, mail notices of registration suspension, and provide a call center to answer inquiries regarding insurance status and payment of reinstatement fees.
- Proposes \$5.4 million to replace the existing remittance system which processes vehicle registration and driver license renewals by mail.
- Proposes \$2.6 million for the relocation of field offices to continue services in Bishop (\$159,000), Clovis (\$549,000), Fairfield (\$564,000), Hollywood

and Vine (\$612,000), King City (\$194,000), Quincy (\$78,000), and Tracy (\$489,000).

- Proposes \$1.1 million for the DMV to collect and transmit organ donor designation information, modify donors' drivers' licenses, and collect voluntary donations to donor programs.